



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

ROBERT E. LIST, CPA
STEWART J. REID, CPA
MICHAEL L. HANISKO, CPA
DAVID D. QUIMBY, CPA
KATHLYN M. ENGELHARDT, CPA
RENA E. M. CLEVINGER, CPA
AMY L. RODRIGUEZ, CPA
SCOTT A. NIETZKE, CPA

WALTER G. WEINLANDER, CPA
ROY A. SCHAIERER, CPA
JAMES L. WHALEY, CPA
JEROME L. YANTZ, CPA
PHILIP T. SOUTHGATE, CPA
ROBERT J. DUYCK, CPA

KAWKAWLIN METROPOLITAN DISTRICT KAWKAWLIN, MICHIGAN

FINANCIAL STATEMENTS
JULY 31, 2005

1600 CENTER AVENUE
POST OFFICE BOX 775
BAY CITY, MI 48707-0775
989-893-5577
800-624-2400
FAX 989-895-5842
www.wf-cpas.com
wf@wf-cpas.com

OFFICES: BAY CITY, CLARE
GLADWIN AND WEST BRANCH

RSM! McGladrey Network

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Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Kawkawlin Metropolitan District	County Bay
Audit Date 7/31/05	Opinion Date 10/27/05	Date Accountant Report Submitted to State: November 2, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

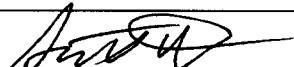
Certified Public Accountant (Firm Name) Weinlander Fitzhugh			
Street Address 1600 Center Avenue	City Bay City	State MI	ZIP 48708
Accountant Signature 		Date Nov. 1, 2005	

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October 27, 2005

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Independent Auditors' Report

Board of Commissioners
Kawkawlin Metropolitan District
Kawkawlin, Michigan

We have audited the accompanying financial statements of the business-type activities and its major fund of the Kawkawlin Metropolitan District as of and for the year ended July 31, 2005, which collectively comprise the Kawkawlin Metropolitan District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and its major fund of the Kawkawlin Metropolitan District as of July 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

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WEINLANDER FITZHUGH

Board of Commissioners
Kawkawlin Metropolitan District
October 27, 2005
Page 2

Required Supplemental Information

The management's discussion and analysis as identified in the table of contents are not a required part of the basic financial statements but is supplemental information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Weinlander Fitzhugh

KAWKAWLIN METROPOLITAN DISTRICT

Management's Discussion & Analysis

For the Year Ended July 31, 2005

The Kawkawlin Metropolitan District (District) is presenting the following discussion and analysis in order to provide an overall review of the District's financial activities for the fiscal year ending July 31, 2005. We encourage readers to consider the information presented here in conjunction with the District's financial statements, and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

- The District's net assets increased by \$39,000.
- During the year "operating revenues" decreased by \$28,000 while "operating expenses" increased by \$11,000.
- Service connections decreased by \$18,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report includes this management's discussion and analysis report, the independent auditors' report and the basic financial statements of the District. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

The Statement of Activities presents information showing how the district's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements report functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The business-type activity of the District is the water system.

KAWKAWLIN METROPOLITAN DISTRICT

Management's Discussion & Analysis

For the Year Ended July 31, 2005

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District's only fund is a proprietary fund.

Proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses an enterprise fund to account for its water system.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information on the only major fund of the District.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide fund financial statements.

FINANCIAL ANALYSIS OF THE DEPARTMENT

The most common financial question posed to the District is "How did we do financially during the fiscal year?" The Statement of Net Assets and the Statement of Activities report information about the District's activities in a way that will help answer this question. The two statements report the net assets of the District and the change in them.

Net Assets

The statement of net assets provides the perspective of the District as a whole. Exhibit A provides a summary of the District's net assets as of July 31, 2005.

KAWKAWLIN METROPOLITAN DISTRICT
Management's Discussion & Analysis
For the Year Ended July 31, 2005

Exhibit A

	Business-Type Activities	
	2005	2004
Assets		
Current assets	\$ 146,808	\$ 136,666
Capital assets - net of accumulated depreciation	276,362	245,665
Total assets	423,170	382,331
Liabilities		
Current liabilities	19,555	18,018
Net Assets		
Investment in capital assets	276,362	245,665
Unrestricted	127,253	118,648
Total net assets	<u>\$ 403,615</u>	<u>\$ 364,313</u>

Exhibit A focuses on the net assets of the District. The District's net assets were \$403,615 at July 31, 2005. Capital assets, net of related debt, totaling \$276,362 compares the original cost, less depreciation of the District's capital assets to long-term debt used to finance the acquisition of those assets, if any.

The \$127,253 in unrestricted net assets of business-type activities represents the *accumulated* results of all past and current year's operations.

The results of this year's operations for the District as a whole are reported in the statement of activities (Exhibit B), which shows the changes in net assets for the year ended July 31, 2005.

KAWKAWLIN METROPOLITAN DISTRICT

Management's Discussion & Analysis

For the Year Ended July 31, 2005

Exhibit B

	Business-type Activities	
	2005	2004
Revenue		
Program revenue:		
Charges for service	\$ 204,397	\$ 232,287
General revenue:		
Investment earnings	421	318
Total revenue	204,818	232,605
Function/Program Expenses		
Water	165,516	154,968
Increase in Net Assets	<u>\$ 39,302</u>	<u>\$ 77,637</u>

While the Statement of Net Assets shows the change in financial position of assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes. As can be seen in Exhibit B above, the decrease in charges for service in relation to service connections is a major factor in the decrease in the change in net assets in 2005. There was also an increase in Function/Program expenses in relation to a meter replacement program.

FINANCIAL ANALYSIS OF THE DEPARTMENT'S FUND

Proprietary fund. The District's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

KAWKAWLIN METROPOLITAN DISTRICT
Management's Discussion & Analysis
For the Year Ended July 31, 2005

	Business-type Activities	
	2005	2004
Gross service charges	\$ 176,354	\$ 186,224
Cost of water	<u>71,079</u>	<u>74,537</u>
Gross profit	105,275	111,687
Operating revenue	28,043	46,063
Operating expenses	(94,437)	(80,431)
Nonoperating revenue	<u>421</u>	<u>318</u>
Change in net assets	<u>\$ 39,302</u>	<u>\$ 77,637</u>
Total net assets - end of year	<u>\$ 403,615</u>	<u>\$ 364,313</u>

Budgetary Highlights

The preparation of budgets is not required for proprietary funds.

Capital Assets

The District had \$276,362 (net of accumulated depreciation) invested in capital assets as of July 31, 2005. The investment in capital assets includes land, building, equipment and water distribution system.

	2005	2004
Land	\$ 2,000	\$ 2,000
Buildings	11,713	11,713
Equipment	38,052	27,839
Distribution system	<u>403,755</u>	<u>373,005</u>
Total capital assets	455,520	414,557
Less accumulated depreciation	<u>179,158</u>	<u>168,892</u>
Net capital assets	<u>\$ 276,362</u>	<u>\$ 245,665</u>

KAWKAWLIN METROPOLITAN DISTRICT
Management's Discussion & Analysis
For the Year Ended July 31, 2005

Depreciation expense has been allocated to water operations.

Long-Term Debt

The District has no long-term debt outstanding at July 31, 2005.

Factors Expected to have an Effect on Future Operations

We are not aware of any factors that will have a significant impact on future operations.

Requests For Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Mr. Brad Shaw
Kawkawlin Metropolitan District
PO Box 367
Kawkawlin, MI 48631

KAWKAWLIN METROPOLITAN DISTRICT
Statement of Net Assets
July 31, 2005

<u>Assets</u>	<u>Business-type Activities</u>
Cash	\$ 74,774
Certificates of deposit	27,817
Accounts receivable	44,217
Capital assets less accumulated depreciation of \$179,158	<u>276,362</u>
Total assets	<u>423,170</u>
 <u>Liabilities</u>	
Accounts payable	19,321
Accrued payroll taxes	<u>234</u>
Total liabilities	<u>19,555</u>
 <u>Net Assets</u>	
Investment in capital assets - net of related debt	276,362
Unrestricted	<u>127,253</u>
Total net assets	<u><u>\$ 403,615</u></u>

See accompanying notes to financial statements

KAWKAWLIN METROPOLITAN DISTRICT
Statement of Activities
For the Year Ended July 31, 2005

<u>Function/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			Business- Type Activities
		<u>Charges for Service</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Business-type Activities					
Water	<u>\$ 165,516</u>	<u>\$ 204,397</u>	<u>\$ 0</u>	<u>\$ 0</u>	\$ 38,881
General revenues:					
					421
					39,302
					364,313
					\$ 403,615

See accompanying notes to financial statements

KAWKAWLIN METROPOLITAN DISTRICT
Statement of Net Assets
Proprietary Fund
July 31, 2005

	<u>Business-type Activities Enterprise Fund</u>
<u>ASSETS</u>	
<u>Current Assets</u>	
Cash	\$ 74,774
Certificates of deposit	27,817
Accounts receivable	44,217
	<hr/>
Total current assets	146,808
	<hr/>
<u>Property and Equipment - At Cost</u>	
Land	2,000
Building	11,713
Equipment	38,052
Distribution system	403,755
	<hr/>
	455,520
Less allowance for depreciation	(179,158)
	<hr/>
Net property and equipment	276,362
	<hr/>
Total Assets	423,170
	<hr/>
<u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts payable	19,321
Accrued payroll taxes	234
	<hr/>
Total liabilities	19,555
	<hr/>
<u>NET ASSETS</u>	
Investment in capital assets - net of related debt	276,362
Unrestricted	127,253
	<hr/>
Total net assets	\$ 403,615
	<hr/>

See accompanying notes to financial statements

KAWKAWLIN METROPOLITAN DISTRICT
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended July 31, 2005

	Business-type Activities Enterprise Fund
Gross service charges	\$ 176,354
Water cost	71,079
Gross profit	105,275
Operating revenues:	
Hydrant rental	3,543
Service connections	24,500
Total operating revenues	28,043
<u>Operating Expenses</u>	
Supplies and materials	31,811
Maintenance wages	12,217
Depreciation	10,266
Repairs and maintenance	9,871
Administrative wages	9,500
Legal and accounting	5,533
Meetings	4,725
Insurance	4,078
Billing charges	1,861
Payroll taxes	1,735
Dues and licenses	1,308
Office expense	770
Utilities	466
Telephone and pager	296
Total operating expenses	94,437
Operating income	38,881
Nonoperating revenues:	
Interest income	421
Change in net assets	39,302
Net assets - beginning of year	364,313
Net assets - end of year	\$ 403,615

See accompanying notes to financial statements

KAWKAWLIN METROPOLITAN DISTRICT
Statement of Cash Flows
Proprietary Fund
For the Year Ended July 31, 2005

	Business-type Activities
	<u>Enterprise Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 174,433
Cash payments to suppliers for goods and services	(130,137)
Cash payments to employees for services	(23,576)
Other operating income	<u>28,043</u>
Net cash provided by operating activities	48,763
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	<u>(40,963)</u>
Net increase in cash and cash equivalents	7,800
Cash and cash equivalents, at beginning of year	<u>66,974</u>
Cash and cash equivalents, at end of year	<u><u>\$ 74,774</u></u>

See accompanying notes to financial statements

KAWKAWLIN METROPOLITAN DISTRICT
Notes to Financial Statements
For the Year Ended July 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Kawkawlin Metropolitan District (District) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Kawkawlin Metropolitan District.

Reporting Entity

The Kawkawlin Metropolitan District was formed under Act 312 of the Public Acts for the year 1929, as amended. The District operates a water supply system. The District purchases water in bulk from the Bay County Department of Water and Sewer and resells it to customers within the District.

The District is governed by a Board of Commissioners. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which governmental organizations are a part of the District's reporting entity, and which organizations are legally separate component units of the District. The District has no component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Government activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. All of the District's government-wide activities are considered business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting operations or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

KAWKAWLIN METROPOLITAN DISTRICT
Notes to Financial Statements
For the Year Ended July 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Separate fund financial statements are provided for the major enterprise fund.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District reports the following major proprietary fund:

The Water Fund accounts for activities of the water distribution system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for water services. The water fund also recognizes the portion of tap fees intended to cover current costs (e.g., labor and material to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

KAWKAWLIN METROPOLITAN DISTRICT
Notes to Financial Statements
For the Year Ended July 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables – Accounts receivable consist of utility charges to the District's customers. No allowance for doubtful accounts has been included in these statements because most delinquent receivables can be added to the tax roll if they remain unpaid and become a lien against the property.

Capital Assets – Capital assets, which include property, plant, and equipment are reported in the applicable business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and any asset susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$0 of interest expense was capitalized as part of the cost of assets under construction.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Building	20 years
Equipment	5-15 years
Distribution system	30-50 years

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

KAWKAWLIN METROPOLITAN DISTRICT
Notes to Financial Statements
For the Year Ended July 31, 2005

NOTE 2 - DEPOSITS AND INVESTMENTS

State statutes and the District's investment policy authorize the District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The District's deposits are in accordance with statutory authority.

At year-end, the District's deposits were reported in the basic financial statements as follows:

	<u>Governmental Activities</u>
Deposits (checking and savings accounts, certificates of deposit)	<u>\$ 102,591</u>

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of July 31, 2005, none of the District's bank balance of \$102,993 was exposed to custodial credit risk because the entire balance was fully covered by federal depository insurance.

The District's investment policy does not identify interest rate risk, foreign currency risk or concentration of credit risk.

KAWKAWLIN METROPOLITAN DISTRICT
Notes to Financial Statements
For the Year Ended July 31, 2005

NOTE 3 – CAPITAL ASSETS

Capital asset activity of the District for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 2,000	\$ 0	\$ 0	\$ 2,000
Capital assets being depreciated:				
Building	11,713	0	0	11,713
Equipment	27,839	10,213	0	38,052
Distribution system	373,005	30,750	0	403,755
Subtotal	412,557	40,963	0	453,520
Less accumulated depreciation for:				
Building	11,713	0	0	11,713
Equipment	27,466	1,733	0	29,199
Distribution system	129,713	8,533	0	138,246
Subtotal	168,892	10,266	0	179,158
Net capital assets being depreciated	243,665	30,697	0	274,362
Net capital assets	<u>\$ 245,665</u>	<u>\$ 30,697</u>	<u>\$ 0</u>	<u>\$ 276,362</u>

Depreciation expense has been allocated to water operations.

KAWKAWLIN METROPOLITAN DISTRICT
Notes to Financial Statements
For the Year Ended July 31, 2005

**NOTE 4 - RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED
BY OPERATING ACTIVITIES**

Operating income	\$ 38,881
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	10,266
Change in assets and liabilities	
Accounts receivable	(1,921)
Accounts payable	1,661
Accrued payroll taxes	<u>(124)</u>
Net cash provided by operating activities	<u>\$ 48,763</u>

NOTE 5 - RELATED PARTY TRANSACTIONS

The District purchased services for system replacement, repairs and maintenance and supplies in the amount of \$45,248 from a Company owned by one employee of the District.